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Agenda item 8

[INSURANCE]

DRAFT REPORT OF THE STANDING COMMITTEE ON DEVELOPING SERVICES SECTORS: FOSTERING COMPETITIVE SERVICES SECTORS IN DEVELOPING COUNTRIES: INSURANCE ON ITS SECOND SESSION

Held at the Palais des Nations, Geneva,
from 4 to 8 July 1994

Rapporteur: Mr. Sikiru Ogunsola (Nigeria)

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Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated, by 15 July 1994 at the latest to:

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INTRODUCTION

1. The Standing Committee on Developing Services Sectors: Fostering Competitive Services Sectors in Developing Countries: Insurance held its second session at the Palais des Nations, Geneva, from 4 to 8 July 1994.

2. In the course of its session, the Standing Committee held ... formal plenary meetings and ... informal meetings.

Opening statements

3. The Chairman said that the heterogeneous composition of the Standing Committee, incorporating representatives of government, regulatory authorities and business, would contribute to the outcome of the Committee's second session on insurance. The task of the meeting was to determine future action on issues on the agenda and on the work programme of the Committee.

4. Since risk was an inevitable part of all human endeavours, insurance, as a risk transfer mechanism, was indispensable for full-fledged socio-economic activity. Lack of insurance led to stunted growth rates and slow development.

5. The insurance sector was undergoing change in many developing countries, prompted by liberalization and privatization reform programmes. Without appropriate regulatory reforms, however, the benefits of liberalization could be lost. He drew attention to the largely unexplored sector of agricultural insurance and its potential for expanding insurance, while also bringing greater stability to the rural economy. He also expected heated debate on insurance for natural disasters and other catastrophes.

6. The Officer-in-Charge of UNCTAD said that insurance was an important factor when discussing and determining policy in respect of international trade in services, long-term development and environment matters. While the insurance industry in developing countries had shown resilience in the past, it could not afford not to explore other clienteles and markets, in particular in the rural and agricultural sector.

7. Economic reforms based on privatization and liberalization were affecting the insurance sector in developing countries, and while these changes would inevitably mean more dynamic insurance markets with better development prospects, they would also require improvements in each country's insurance regulation and supervision. Developing countries had to decide whether a privatized and liberalized insurance market would continue to fulfill a number of social objectives, besides providing insurance services.

8. Catastrophic losses caused by the perils of the natural environment could impede the development prospects of a whole country. The Committee must provide policy direction on how to remedy the low prevalence of catastrophe insurance in developing countries. Still in the field of environment, he drew attention to the possibility of using environmental impairment liability insurance to internalize environmental costs. In concluding, he said that the goal of the session was to focus the Committee's work for the period up to the next session.

9. The Chief of the Insurance Programme said that the conclusion of the Uruguay Round had placed insurance firmly on the international agenda and that this presented an opportunity for the role of insurance and its contribution to development to be more widely acknowledged.

10. The series of natural disasters since 1970 accounted for the bulk of insured losses. Together with environmental impairments, they posed a formidable challenge, not only to the insurance sector but also to Governments to introduce more stringent measures in respect of risk prevention and reduction. While a number of arrangements such as pools or disaster funds had been discussed, a final solution had not yet been found, but it was evident that the insurance sector's experience and knowledge would contribute to possible solutions.

11. The liberalization and globalization of insurance held promises and challenges for all markets, but in developing markets Governments must strike a balance between the legitimate expectations of their producers and consumers in terms of efficient and affordable services and the long-term interests of the country in terms of a viable domestic insurance industry.

12. The area of agricultural insurance, which had important development dimensions, provided potential for developing countries' insurers to enlarge their operations in an area where they enjoyed a domestic advantage over foreign competitors.

13. Finally, privatization and liberalization depended on a congruent framework of rules ensuring that competitive forces operated with fairness and to the benefit of all members of society. Adapting the regulatory framework to the new conditions was insufficient without strong institutions for enforcement.

Chapter I

REVIEW OF DEVELOPMENTS IN THE INSURANCE MARKET

REVIEW OF PROGRESS MADE ON THE WORK PROGRAMME

CONSIDERATION OF SPECIFIC ITEMS OF THE WORK PROGRAMME

(Agenda items 3, 4 and 5)

General statements

14. The representative of India said that the new economic environment had contributed to a reappraisal of policy frameworks and had had a significant impact on insurance, in particular through liberalization and the consequent internationalization of trade in services. The implementation of such reforms required the evolution of a broad national consensus, and differences between several interest groups had to be reconciled.

15. As 70 per cent of India's population lived in rural areas, agricultural and rural insurance was of great importance. Experience in India indicated that certain covers were commercially viable and showed potential, while others consistently produced losses. Improving existing schemes required sharing experience in techniques and strategies with developing countries.

16. Another important issue was the development of human resources, and in that connection he offered his country's insurance training facilities to all developing member countries.

17. Concerning regulation and supervision, without reforms in the regulatory mechanism, the benefit of liberalization could be lost. Assistance in such reforms should be organised within a multilateral framework and should encompass support for developing countries in drafting legislation and setting up and strengthening insurance authorities.

18. The spokesman for the European Union (Germany) said that the main task of the Standing Committee was to analyse prospects for developing and strengthening the insurance sectors of developing countries and enhancing their trade in this field and that the countries of the European Union were fully determined to contribute to this process in the spirit of Cartagena.

19. Agricultural insurance in developing countries, a "largely untried" area, deserved special attention for the obvious reason that in most developing countries uninsured farmers were the backbone of the economy but also an element of potentially great instability, and they were mostly denied access to credit facilities except on usury terms. Awareness-building thus had to be complemented by capacity-building. The UNCTAD secretariat had rightly pointed out that cooperative organizations could play a much larger role here. Cooperatives had traditionally had a very important role to play in agricultural modernization, and numerous cooperation project with developing countries existed at the grassroots level. The member States of the European Union were committed to strengthening and integrating technical assistance in UNCTAD's work, as called for in the Cartagena Commitment.

20. Insurance for large risks in developing countries held enormous potential for the future and dovetailed with efforts aimed at risk prevention and raising of safety standards. UNCTAD was a member of the Steering Committee of the International Decade on Natural Disaster Reduction, which had been launched in 1989 and where large reinsurance companies played an important part. He felt that the subject of alternative mechanisms for large risks, environmental impairments and catastrophes deserved still greater attention by UNCTAD. While recognizing budgetary constraints, the European Union would like to see more of UNCTAD's work concentrating on this cross-cutting issue, which appeared to be closely linked to sustainable development. The European Union had always stressed the important role UNCTAD could and should play within the framework of Agenda 21, and the UNCTAD secretariat was encouraged to explore this new and challenging field further. The proposal to provide more country-specific research, as outlined in document TD/B/CN.4/31, was expected to find support from the European Union.

21. The representative of the Commission of the European Union said that the statistical review for 1983-1990 (UNCTAD/SDD/INS/5) filled an important gap, as other such surveys excluded some 50 countries, many of which were amongst the poorest and were not included in other data sources. The review of developments for 1989-1993 (UNCTAD/SDD/INS/2/REV.1) was an important source of information, and

its publication should be continued. The document on regulations and supervision (UNCTAD/SDD/INS/6) showed clearly what had to be done by a regulator's department to achieve the most efficient market conditions and ensure policy-holder protection.

22. One of the most important documents prepared by the secretariat related to privatisation and liberalisation (UNCTAD/SDD/INS/3/REV.1). Certain countries of the European Union had had experience with privatization and the dismantling of State monopolies, and the European Union was providing technical assistance in this area to countries in Central and Eastern Europe and countries of the former Soviet Union via the two programmes PHARE and TACIS. The experience gained confirmed that a market would only be free and secure for both companies and policy-holders if it was well regulated. Freedom of access ensured that risks could be well spread and allowed local markets to benefit from the strength and expertise of international insurers.

23. The extent to which liberalization could be pursued might be limited by the degree of each country's development. The European Union supported the suggestion to organise a three-day seminar for developing countries before the third meeting of the Standing Committee.

24. The important work completed on agricultural insurance (UNCTAD/B/CN.4/30) included some new and interesting ideas. For the technical assistance projects which it was hoped to launch, a pragmatic approach was recommended.

25. With regard to documentation, he felt that it was important for the documents of the Standing Committee to be adequately distributed to insurers in developing countries, Ministries of Finance and professional associations.

26. Finally, he repeated his observation of February 1993 that the human and financial resources of the insurance programme were insufficient to complete the tasks assigned to it within a three-year period.

27. The spokesperson for the Asian Group (Singapore), referring to agenda item 3, said that, in recent years, a number of Asian countries had paid a heavy toll in terms of natural catastrophes, with much of the damage uninsured. National and international reinsurers should help exposed countries to put into place suitable arrangements for catastrophe insurance. The Standing Committee was a suitable place for such analyses and exchanges of views and experience in that connection.

28. On agenda item 4, regarding privatization and liberalization of the insurance sector, it had to be recognized that the sector had a special social role which many foreign insurers would not undertake, and that the need to develop a domestic insurance sector had to be taken into account. The General Agreement on Trade in Services recognized the need to strengthen domestic services capacity and efficiency in developing countries, and also stated that a country was not to be prevented from taking regulatory measures for prudential reasons to secure the stability of its financial and insurance system. Government had to create or maintain an economic environment that stimulated growth of the insurance industry and conditions for local insurers that equalled those of their competitors.

29. On insurance regulation and supervision, many Asian countries were pursuing privatization and liberalization policies, but the benefits of such policies might not be realized without clear regulations and effective supervision. The Asian group was therefore supportive of studies that facilitated the adaptation of regulatory and supervisory systems to new market realities.

30. On agenda item 5, in relation to agricultural insurance, the Asian Group agreed that the agricultural production sector should no longer be accorded low priority by insurers. Well devised agricultural insurance policies enabled farmers to take more risks, adopt better technology and use high-quality inputs because they were compensated if events beyond their control occurred. The connection between insurance and rural credit was also very important. In many Asian countries insurance was already requested by rural credit institutions when granting loans to farmers. The insurance and banking sectors were urged to cooperate and to increase the benefits of their services to rural societies.

31. The Asian Group appealed to international and national donors to support technical cooperation in respect of the development and introduction of viable agricultural insurance schemes in developing countries and in particular in the least developed countries. The acquired experience of developing as well as of developed countries should be looked at more closely in follow-up work.

32. The representative of Romania said that the insurance market of his country had recently been liberalized. At present, there were 23 private and joint-venture companies servicing the Romanian market. He also announced the establishment of the National Union of Insurance and Reinsurance Companies of Romania, constituted on 20 June 1994 by 13 companies. The main objective of the Union was to

collaborate and maintain permanent contacts with national and international bodies active in the area of insurance.

Chapter II

ORGANIZATIONAL MATTERS

A. Opening of the session

33. The second session of the Standing Committee on Developing Services Sector: Insurance was opened by Mr. S.V. Mony (India), Chairman of the Standing Committee at its first session.

B. Election of Officers

(Agenda item 1)

34. At the opening plenary meeting of its second session, on 4 July 1994, the Standing Committee elected its bureau as follows:

Chairman:	Mr. Fernando Jaime Moscoso Salmon	(Bolivia)
Vice-Chairmen:	Mrs. Kirsten Mandrup	(Denmark)
	Mr. Jorma Heikkilä	(Finland)
	Mr. Hermes Silva Nobre	(Uruguay)
	Mr. Wayoso Prodjowarsito	(Indonesia)
	Mrs. Capitolina Tourbina	(Russian Federation)
Rapporteur:	Mr. Sikiru Ogunsola	(Nigeria)

C. Adoption of the agenda and organization of work

(Agenda item 2)

35. At the Standing Committee's opening plenary meeting, on 4 July 1994, the Chairman drew the Committee's attention to the fact that, in the conclusions adopted at the resumed second part of its fortieth session on the mid-term review and evaluation of work programmes, the Trade and Development Board had requested intergovernmental bodies to have more focused mandates, as well as more realistic and achievable objectives, and to adhere strictly to existing guidelines on agendas

and documentation. Hence, each agenda should be limited to two substantive items and one item on the review of activities pertaining to the work programme.

36. The Standing Committee then adopted its draft provisional agenda (TD/B/CN.4/29), as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Review of developments in the insurance market
4. Review of progress made on the work programme
5. Consideration of specific items of the work programme:
   (a) Review on critical areas with regard to insurance legislation, regulation and supervision (see item B.1.(a) of the work programme)
   (b) Privatization and liberalization in insurance
   (c) Expanding the insurance sector in agriculture and rural insurance
   (d) Exchange of experiences on creditor insurance
   (e) Reinsurance (see items B.1.(c) and B.2. of the work programme)
6. Provisional agenda for the third session of the Standing Committee, Insurance
7. Other business
8. Adoption of the report of the Standing Committee, Insurance, to the Trade and Development Board.

D. Provisional agenda for the third session of the Standing Committee, insurance

(Agenda item 6)

[To be completed]

E. Other business

[To be completed, as appropriate]

F. Adoption of the report of the Standing Committee, Insurance, to the Trade and Development Board

[To be completed]